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## CASH MANAGEMENT POLICIES AND PROCEDURES HANDBOOK

### APPENDIX F PROMPT PAYMENT REQUIREMENTS

#### F Section 1.0 General

This appendix to the Handbook establishes Department of Commerce policies and procedures for timely payment of bills, as well as for the payment of interest and penalties (if any) when payments are made late. Such late payment penalties apply only to those contracts covered by the Prompt Payment Act (P.L. 97-177, as amended by P.L. 100-496). ~~An example of such a contractual category is the “Smartpay Card.”~~

#### F Section 2.0 Policy Y Intent and Authority

##### .01 Intent

Purchase activities should be conducted in a manner that will achieve the lowest possible cost while maintaining good business relationships with suppliers. To achieve this objective, organization unit finance offices shall observe the following principles. Pay bills by the established due date, but not earlier than seven days prior to the payment due date -- ~~unless earlier payment will result in a discount or rebate.~~

Base payment on receipt of Proper Invoices and satisfactory performance of contract terms. ~~Exception: accelerated payment to a vendor is permitted prior to verification that merchandise has been received, under certain circumstances, such as the maximization of rebates.~~

~~Automatically~~ pay interest ~~and late penalties (if any)~~ on bills that are paid late and that are subject to the Prompt Payment Act, without ~~payees~~ requesting these payments. Take advantage of cash discounts, ~~automatically~~ consistent with applicable Treasury guidelines, and in compliance with the Prompt Payment Act.

~~Public Law 105-362, enacted the “Federal Reports Elimination Act” that repealed 31 U.S.C. 3906, the “Prompt Pay Reporting Requirement”. Agencies are no longer required to submit “Prompt Pay” statistics to Treasury’s Financial Management Service (FMS).~~

~~However, the Department of Commerce is still tracking Prompt Pay interest and penalty payments as well as other related information for internal use and for use in any other consolidated reports that may be required by law. Bureaus are therefore asked to continue to maintain Prompt Pay information and a system to assemble and transmit such information.~~

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### .02 Authority

Department policies and procedures comply with the requirements of:

~~4 CFR Section 1315.7~~

5 CFR Part 1315

~~31 U.S.C. 3906~~

Public Law 105-362

Prompt Payment Act (P.L. 97-177, as amended by P.L. 100-496).

~~Budget (OMB) implementing Circular A-125, dated December 12, 1989.~~

Disbursement requirements contained in Treasury Financial Manual (TFM), Volume I, Part 6, Chapter 8000; and

31 USC Chapter 39 B Prompt Payment

5 U.S.C. 5707, Sections 301-52.18 and 301.19

### F Section 3.0 Responsibility

The Director for Financial Management (OFM) is responsible for ensuring that:  
These policies and procedures are effectively implemented Departmentwide; and that  
Individual finance offices develop and maintain internal operating procedures to ensure timely payment of bills.

Each organization unit Finance Officer is specifically responsible for:  
Ensuring timely payment of bills and the payment of interest and penalties when required; as well  
as determining the causes of any unacceptable level of interest penalties incurred, and taking  
necessary corrective or disciplinary action(s).

To ensure compliance with the Prompt Payment Act, each Finance Officer (or designee) will:

Designate an individual(s) who will be responsible for developing, implementing, and maintaining Prompt Payment procedures;

Establish timely bill payment as a criterion in the performance appraisals of each designated employee responsible for overseeing prompt payment of bills;

Make certain that internal operating procedures are developed and effectively maintained and that particular emphasis is placed on ensuring that individual large dollar payments are made on time and that appropriate cash discounts are taken;

Work closely with appropriate organization unit offices to ensure that Receiving Reports are promptly forwarded to payment office(s); and

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Implement (an) effective Quality Control Program(s) within each payment office as described in ~~Section 3.e. of OMB Circular A-125~~ **5CFR Section 1315.3**.

### F Section 4.0 Processing a Typical Invoice

~~While vendors, the Treasury Department or any of the receiving and payment offices within the Department may process a given document in a slightly different manner, the complete cycle (from procurement, through receipt, to the final payment of an invoice) generally follows a similar procedure:~~

a. The vendor

~~prepares and sends an invoice~~sends or delivers the goods or performs the agreed upon service

b. The Receiving Office

~~Inspects the goods or evaluates the service.~~ **Prepares and sends a ARe**Upon receipt of a **Proper Invoice (as defined in F Section 7.0, below)** from the vendor and **a matching A Receiving Report**”:

~~The “Receiving Report” is attached to the Invoice;~~

~~the Invoice is date stamped, certified for payment, and sent to the Payment Office.  
Note 1: The Invoice / Receiving Report must be returned to the vendor (normally not later than seven (7) days from receipt) if it is determined to be improper. Note 2: A Receiving Report is used in lieu of an Invoice for certain types of contracts and Purchase Orders.~~

c. The Payment Office

~~Reviews the Invoice/Receiving Report to ensure it has been properly certified and matches with Purchase Order / Contract.~~

~~Sends Purchase Orders/Contracts to the Payment Office immediately upon award.  
(Receiving Reports should be received in the Payment Office by the fifth working day after receipt/acceptance of goods or services.)~~

~~Calculates the due date of the payment (normally thirty (30) days from receipt of a Proper Invoice unless otherwise specified in the contract).~~

~~If a discount is offered, determines whether the discount is economically justified to take using a formula established by Treasury (that converts discount terms into an effective annual discount rate used to compare against Treasury's current value of funds rate. If the~~

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~~converted discount terms are equal to or greater than Treasury's current value of funds rate, the discount is economically justified and is taken.) Note: Discounted payments must be made as close as possible to, but not later than the last day of the discount period, otherwise an interest penalty must be paid.~~

~~Processes and schedules the Invoice for payment, but not earlier than seven (7) days before the due date unless a rebate is earned for fast payments. (If an Invoice is already overdue, interest must be computed from the first day of delinquency to the payment date using the Prompt Payment Interest Rate. Interest penalties of less than one (\$1) dollar need not be paid.)~~

~~Prepares and certifies a "Treasury Payment Schedule"~~

### ~~d. Treasury~~

~~Processes the ATreasury Payment Schedule.~~

~~Treasury pays the vendor (either by check or electronic funds transfer). It should also be noted that payment for goods or services with an Individual Account Card is authorized.~~

## F. Section 4.0 Standards for Prompt Payment

### ~~.01 Scheduling Payments~~

~~Payments to vendors should be scheduled so that payments are received by the established due date. Generally, however, no mail or electronic payments shall be made earlier than seven (7) days from the established due date unless Fast Payments are made to maximize rebates.~~

### ~~.02 Late Payment and Interest~~

~~If payments are made after the due date, interest payments will be remitted without the payee requesting them. The standards for making payments, determining due dates, taking discounts, and paying interest will follow the requirements in OMB Circular A-125, Section 4 CFR Section 1315.7.~~

### ~~.01 Determining the Payment Due Date~~

~~The period available to make a timely payment without incurring an interest penalty begins on the date of receipt of a Proper Invoice.~~

~~An Invoice is deemed to be received on the later of:~~

~~The date a Proper Invoice is received by an agency if the agency annotates the invoice with the date of receipt; or~~

~~The seventh day after the date in which goods are delivered or services completed, unless acceptance occurs earlier or if a longer acceptance period is specified in the~~

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If the agency fails to annotate an Invoice with the date of its receipt, the date placed on the Invoice by the contractor is used to determine the start date for the payment period.

Unless otherwise specified, payment is due:

In accordance with the date specified in the contract;

In accordance with discount terms when discounts are offered and taken;

in accordance with Accelerated Payment Methods; or

30 days after the start of a payment period, when a Proper Invoice is received.

### .02 Misdirection of the Invoice by the Vendor to an Office Other Than the Designated Agency Office

The payment period does not begin until the date the invoice is received by the designated agency office. "Agency Office" is defined as the office designated by the Purchase Order, Agreement, or Contract to first receive and review Invoices.

The Agency Office may be different from the office issuing the payment.

### .03 The Treatment of Holidays and Weekends In Determining the Payment Due Date

When calculating the Payment Due Date, "day" means a calendar day including weekends and holidays. However, when the Payment Due Date itself (including discount due dates, falls on a weekend or Federal Holiday) payment may be made on the following business day.

### .04 Accelerated Payment Methods{IMPORT aqualine.gif \\* MERGE FORMAT aqualine.gif

The Prompt Payment rule expands the options for making early payments in certain circumstances if doing so is in the best interest of the government. Agencies may accelerate payments for:

Single invoices under \$2,500;

payments to small businesses; or

payments related to emergencies, disasters, and military deployments.

### .05 Interagency Payments

Prompt Payment late interest penalties do not apply to interagency payments.

However, agencies are required to use electronic payment methods for interagency payments and to include advance billing and other payment terms in Interagency Agreements to ensure timely payments.

### .06 Late Interest Penalties Regulated by State, Local, or Foreign Governments vs.

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### Prompt Payment Late Interest Penalties

Late payment rates for utility services issued by state, local, or foreign governments take precedence over the Prompt Payment late interest penalties for determining the amount of interest due for late payments.

#### .07 Federal Government Vendors Failing to Make Prompt Payment to their Subcontractors

The Prompt Payment rule does not generally provide for late interest penalties for payments made to subcontractors.

Under construction contracts, however, an agency may withhold payment from a prime vendor if they learn that the prime vendor has failed to pay their subcontractor in accordance to the terms of their contract.

#### .08 Travel Reimbursements to Federal Employees

Although the Prompt Payment rule does not cover travel reimbursements to Federal employees, the Federal Travel Regulation interim rule (41 CFR Parts 301-51, 52, 54, 70, and 76) requires agencies to reimburse an employee within 30 days after the employee submits a proper travel voucher to the approving official. Late payments are subject to an interest penalty based on the Prompt Payment interest rate in effect.

When the payee is an employee entitled to reimbursement for travel expenses:

The Agency must reimburse the employee within 30 calendar days of submission of a Proper Travel Voucher to the Approving Official;

The Agency must notify the employee within seven days of receipt of a Travel Voucher of any error therein that would prevent payment within 30 calendar days of submission; and

The Agency should not hold payments due on Travel Vouchers (to utilize the 30-day period allowed). Payments should be made as-soon-as-possible to the employees. In the event of late payment, the Agency will pay the employee a Late Payment Fee in addition to the amount due.

#### Notes:

Late Payment Fees are calculated using the prevailing "Prompt Payment Act Interest Rate beginning upon the 31<sup>st</sup> day after the required Payment Date and ending upon the day the payment is made.

In addition to the Late Payment Fee, the Agency must also pay the employee the equivalent of any Late Payment Charge that the Card Contractor would have been able to levy upon the employee.

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### .09 Late Payment Interest Penalties B Determining the Amount of the Penalty

Interest is calculated from the day after payment was due until the day payment is made. The interest rate in effect on the day after the payment due date is used to calculate the interest penalty. (See Section 10 for additional guidance.)

The following formula can be used to determine simple daily interest:  $P(r/360*d)$

#### Key :

P is the amount of principal; r equals the Prompt Payment interest rate; and d equals the number of days for which interest is being calculated.

The following formula can be used to determine monthly compounding interest:

$$P(1+r/12)^n * (1+(r/360*d)) - P$$

Additional information on the calculation of late interest penalties including examples can be accessed on the Prompt Pay website at:

<http://www.fms.treas.gov/prompt/formulas>

### .10 Payment Due in One Fiscal Year, but Paid After the Payment Due Date in a New Fiscal Year

An agency must pay an interest penalty out of amounts made available to carry out the program for which the penalty is incurred.

The interest payment is charged to the fiscal year of the day after the invoice payment due date (which is the day the agency incurred the obligation to pay interest). Therefore, if the product or service in support of this program was purchased in FY 1999, it should be paid from FY 1999 funds.

### .11 Additional Penalty

~~A vendor is entitled to an additional penalty if he or she does not receive a late payment interest penalty within 10 days of receiving the principle amount. However, the vendor must make a written request for payment within 40 days of when the principle amount is paid and include a copy of the original Invoice in which payment was made late.~~

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### F Section 5.0 Purchase Orders and Contracts

A copy of each Purchase Order or Contract along with a “Notice”, or cover sheet (that clearly states whether or not the agreement is covered by the Prompt Payment Act) will be furnished promptly after issuance to the Finance Office responsible for making payment.

Upon receipt of each Purchase Order or Contract, the Finance Office will review its provisions to determine whether the document contains all of the information needed to make a timely and accurate payment(s). If the provisions are found to be deficient, the Finance Office will notify the Contracting or Procurement Office immediately and request that the necessary modification(s) be made to the document.

### F Section 6.0 Invoices

#### .01 Proper Invoice

The following correct information constitutes a Proper Invoice and is required as payment documentation:

Name of **payee** and Invoice date (vendors/contractors are encouraged to date Invoices as close as possible to the date of mailing or transmission);

**Taxpayer Identification Number (TIN).—For private party payees, this may be the Social Security Number., if not previously provided;**

Contract number, Purchase Order Number, or other authorization for delivery of property or services;

Description, price, and quantity of property and services actually delivered or rendered;

Shipping and payment terms;

Name (where practicable), title, telephone number along with complete mailing address of responsible official to whom payment is to be sent; and

Other substantiating documentation or information as required by the contract. EFT information, if not previously provided.

**Note: The Invoice should be date-stamped by the Payment Office with the date of receipt. Otherwise, the date placed on the Invoice by the contractor/vendor will be used to calculate the payment due date.**



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Invoices for Citibank Purchase Card services are considered received@ on the date that they are received by the Commerce Bankcard Center. Invoices for Citibank centrally billed travel accounts are considered received when both the Citibank bill and the reconciling information from the Travel Management Center are received.

### .02 Required Notices to Contractor / Vendor Payees

Submission by a contractor/vendor of an Invoice that is not a Proper Invoice is no submission at all.

When an organization unit determines that an Invoice is not proper, it must be returned to the Payee within seven days (~~see OMB Circular A-125 for the number of days for different food products~~). Failure to do so reduces the number of days available (30) by the number of days past seven it took to return the defective Invoice to the Payee to make the necessary payment without incurring an interest penalty payment.

Copies of improper Invoices, with notations of the date returned to the Payee, should be kept in a central file for reference.

### .03 Summary Invoice

The vendor or contractor will submit a Summary Invoice monthly or within 60 days after expiration of the Blanket Purchase Agreement (BPA), whichever occurs first, for all deliveries made during the month. All Delivery Tickets covered should be identified, with the total dollar value stated, and supported by receipted copies of the Delivery Tickets.

Vendors or contractors not submitting monthly summary billings, as required under the BPA, will be paid per call order. Billings received between the first and last day of the month will be paid within 30 days from the last day of the month.

## F Section 7.0 "Receiving Reports"

The following information is required on a proper "Receiving Report":

- Contract or other authorization number;
- Product or service description;
- Quantities received, if applicable;
- Date(s) property or service was delivered and accepted;
- Signature (or electronic alternative when supported by appropriate internal controls);
- Printed name, title, telephone number, mailing address, and E mail address of the

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receiving official.

**Taxpayer Identification Number (TIN) if available.**

Organization units will ensure that receipt and acceptance are executed as promptly as possible, or before expiration of the permitted acceptance period, if such a period is specifically stated in the Contract or "Purchase Order".

"Receiving Reports" must be sent in time to be received by the payment center by the **fifth business day** after receipt or acceptance of goods or services. Since the late receipt of these reports is the primary reason for late payments, it is incumbent upon the payment offices to work closely with appropriate offices throughout their organization unit to ensure that Receiving Reports are forwarded in a timely manner.

Designated receiving and payment offices must date-stamp "Receiving Reports" and Invoices as they are received in that office.

Where performance does not satisfy the provisions of the contract, the **payee** will be notified as soon as possible by the responsible purchasing or contracting office.

### F Section 8.0 Timing Considerations in the Payment of Invoices

The "Timely Payment Period" starts with receipt of a "Proper Invoice" and ends with the "Payment Due Date." The "Timely Payment Period" is the period available for making a payment without incurring interest.

#### ~~.01 Determining the "Date of Receipt" of a Proper Invoice~~

~~An Invoice is considered received on the latter of:~~

~~The date a Proper Invoice is actually received by the designated Billing Office if that office annotates or stamps the Invoice with the date of receipt. If the Invoice is not date stamped at the time of receipt, the date placed on the Invoice by the contractor will be used to determine the due date; or~~

~~The seventh day after the date on which the goods are actually delivered or the services are actually performed, unless a longer acceptance period is specified in the contract or the organization unit has accepted the goods or services before the seventh day.~~

#### Exceptions.

**Invoices for Citibank Purchase Card services are considered "received" on the date that they are received by the Commerce Bankcard Center (CBC).**

**Invoices for Citibank centrally billed travel accounts are considered received when**

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both the Citibank bill and the reconciling information from the Travel Management  
Center (TMC) are received.

.01 Determining Payment Due Dates

Basically, Unless otherwise specified, payment is due either:

On the date specified in the contract; or

If a Payment Due Date is not specified in the contract, it will fall 30 days after the  
Start of the Timely Payment Period.

.02 Exceptions Under Which Due Dates Can Vary

a. Payment Due Dates vary for different food commodities (e.g., meat or meat  
food products, perishable agricultural commodities, or dairy products), refer to:  
OMB Circular A-125, Section 4.f

Perishable Agricultural Commodities Act of 1930 (7 U.S.C. 499 a(4) for meats; or  
Dairy Production Stabilization Act of 1983 (7 U.S.C. 4502 (e) for dairy. For  
specific products, contractual Payment Due Dates should be determined by  
prevailing industry practices.

b. When Invoices containing items with different payment periods are received,  
organization units:

Should pay in accordance with the payment provisions of the Contract;

Must pay an interest penalty if some items are paid for after their due dates;

May split payments, making payment by the due date applicable to each  
category;

May, take discounts for partial deliveries, if offered, when payment is made  
within the discount period;

May not require contractors to submit multiple Invoices for payment of  
individual orders by the organization unit; and

May encourage, but may not require contractors to submit separate  
Invoices for categories of products with different payment periods.

F Section 9.0 Purchase Discounts and Rebates

Vendors offer a variety of price reductions (discounts): volume discounts, payment-by-cash  
discounts, time discounts, etc. Vendors may also offer rebates, which are refunds of part of the  
sales price or fee in consideration for early payment.

This section is primarily concerned with “Time Discounts” for early payments as they relate to

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Economically justified discounts should be taken within the "Discount Period" whenever offered by the contract document or Invoice. Normally, discounts B even Prompt Payment Discounts -- may be taken only after acceptance of goods or services has occurred except where a lawful agreement provides otherwise.

Payment officers must maintain a record of all lost economically justified discounts for reporting purposes. Organization unit payment systems are to include procedures that take advantage of cash discounts as a matter of routine. Such procedures should expedite the handling of Invoices offering cash discounts. For further guidance on taking cost-effective discounts, see TFM 6-8040.30, "Cash Discounts."

Organization units should continuously review ways for improving early identification of Invoices involving discounts. These procedural and operational reviews should include:

- Determining which discounts are economically justified for early payment;
- Placing appropriate Invoices on a "fast pay track"; and
- Immediate follow-up to obtain the "Receiving Report" where such special handling is warranted.

Such action must be cost-effective in terms of the discount involved.

### .01 Time Considerations in Taking Discounts

For an organization unit to accept the offered discount, the unit need only to properly send payment. The date of mailing the check is controlling, not the date of receipt by the payee.

Electronic Funds Transfer (EFT) is encouraged.

If the time provided by the Contract is given as a certain number of days, the word "days" refers to calendar days and not working days, unless otherwise stated. On Saturdays, Sundays, and legal holidays, when Government offices are closed and Government business is not expected to be conducted, payments falling due may be scheduled for the next business day without losing the discount.

When a cost-effective cash discount is offered, the applicable Invoice must be processed promptly to avoid loss of discount.

Disbursing Vouchers for Invoices with cash discounts will be prepared and sent to the Department of the Treasury to permit check issuance as close as possible to, but no later than, the last day of the discount period. A payment made by Electronic Funds Transfer (EFT) will be made on the last day of the discount period.

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The period for taking a discount, the ADiscount Period@, is calculated from the

“Discount Date” placed on the Proper Invoice by the contractor. When a Time Discount is taken, payment will be made as close as possible to, but not later than, the discount date.

However, if the contractor has not ‘dated’ the Invoice, the Discount Period will begin on the date a Proper Invoice is actually received by the designated Billing Office -- assuming that the organization unit has annotated the Invoice with the date when the item(s) listed on such Invoice were received.

### .02 Invoice Payments and Compliance with the Prompt Payment Act

#### a. Purchase Cards Purchases

Pending Citibank’s actions to ensure sufficient information on Invoices for processing payments, the following policy applies to Purchase Cards.

The Prompt Pay “Clock” starts running with the date printed on the Invoice generated by the Commerce Bankcard Center (CBC).

Note: The date currently used is the Business day after the 21<sup>st</sup> of the month. The Prompt Pay interest payment should be made as a separate payment.

#### b. Centrally-billed Travel Account Purchases

Since detailed travel information has had to flow through Citibank and the Travel Management Center (TMC) prior to its receipt by the Cardholder:

The Prompt Pay “Clock” does not start running until the Cardholder receives both the Hard Copy “Invoice” from Citibank and the reconciled travel data from the responsible TMC.

Prompt Pay interest payment should be made in a separate payment.

#### c. Accelerated Payments

Accelerated Payments are payments made prior to the verification of receipt of merchandise as permitted in certain circumstances, such as the taking advantage of rebates.

~~Discounts will be taken when the AEffective Annual Interest Rate@ is equal to or greater than the ACurrent Value of Funds Rate@. As provided in I TFM 8040, the discount rate can be converted to the Effective Annual Interest Rate by using the following formula:~~

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~~(Discount %)~~ multiplied by ~~(Days in Year)~~ ~~Equals~~

~~(100% less Discount % )~~ x ~~( Number of days~~ = ~~(Effective Annual~~  
~~Interest Rate)~~ ~~in payment period~~  
~~less number of days~~  
~~in discount period.)~~

### F Section 10.0 Late Payment Interest Penalties

When an organization unit fails to make payments when due, interest penalties will be paid pursuant to the guidelines provided below ~~and in Section 7 of OMB Circular A-125~~. Organization units will pay such interest penalties without the need for **Payees** to request them.

Organization units shall pay interest out of funds made available for the administration or operation of the program for which the penalty was incurred.

#### .01 Conditions Requiring Interest Payment

Interest will be paid when all the following conditions are met:

Contract or Purchase Order with a **payee** subject to the Prompt Payment Act;

A proper Invoice has been received (except where no Invoices are required, e.g., some periodic lease payments);

Acceptance of property or services has occurred and there are no disputes over quantity, quality, or other contract provisions; and

Payment is made to the **payee** after the due date.

Payment of interest is also required when an organization unit takes a discount after the discount period has expired, and fails to correct the underpayment by the payment due date. ~~(See Section 7 of OMB Circular A-125 for further guidance.)~~

When an organization unit pays a late payment interest penalty, such payment must be accompanied by a statement that provides:

the amount of the interest;

the interest rate currently in effect; and

the number of days covered by the penalty payment.

#### .02 Situations in which Interest penalties need not be paid:

Payments made on time in accordance with the Prompt Payment Act or in accordance with the terms of the agreement;

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Progress payments made solely for financing purposes where items of property or

services have not been delivered or performed;

Payment is delayed because of a dispute between an organization unit and a **payee** over the amount of the payment or other issues concerning compliance with the terms of a contract while the dispute is being settled in accordance with the Contract Disputes Act of 1978, as amended;

Interest amounts to less than one dollar;

Payments made in advance for such things as rent, tuition, subscriptions, etc., unless interest penalty terms are specified in the procurement document;

Costs or fees temporarily withheld in accordance with the terms of the contract; or

When an organization unit cannot complete transmission of payment to a contractor by EFT because of incorrect or incomplete account information provided by the contractor. The organization unit is exempted from payment of interest penalties for the period between the date of attempted transmission and the date on which the **Payee** supplies correct information to the organization unit, provided that the **Payee** has been given notice of the defective account information within seven days after the organization unit is notified of the defective information.

### F Section 11.0 Additional Penalties

#### .01 Conditions

A **payee** is entitled to an additional interest penalty payment equal to one hundred percent (100%) of the original late payment interest amount when the **payee meets all of the following conditions:**

Is owed a late interest payment by an organization unit;

Received a payment late that did not include an interest penalty that was due;

Was not paid the interest penalty within ten days of such late payment; and

Makes a written request not later than forty days after the payment was made. (The **Payee's** written request must specifically identify the Invoice for which late payment interest is overdue, and request payment of all late payment interest penalties and additional penalties.)

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### .02 Limitations of the Penalty Amount

The additional interest penalty is subject to limitations as follows:

The maximum additional penalty shall not be greater than \$5,000.

The minimum additional penalty shall not be less than twenty-five dollars regardless of the amount of the late payment interest penalty.

Maximum and minimum penalties shall be determined on each separate payment made for each separate contract.

### .03 Administrative Constraints regarding Additional Interest Penalties

The penalty shall not be based on individual Invoices unless such Invoices are paid by separate payments.

Where payments are consolidated for disbursing purposes, the penalty determination shall be made separately for each contract.

Additional interest penalties do not cease to accrue at the end of one year as does the late payment interest penalties.

Additional penalties do not apply to the payment of utility bills, because late payment penalties for these bills are determined through the rate-setting process.

## F Section 12.0 Applicable Interest Rate

The interest rate to be used for calculating interest penalties (except in cases where a different interest rate is prescribed by another governmental authority) is that which is in effect on the day after the due date. It is established by the Secretary, Department of the Treasury and is variously referred to as:

the "Renegotiation Board Interest Rate,"  
the "Prompt Payment Act Interest Rate," or  
the "Contract Disputes Act Interest Rate."

It is published semi-annually in the Federal Register on or about January 1 and July 1 and can also be obtained from the ~~Office of Financial Policies and Procedures, OFM,~~ (202) 377-4593. **the following web site:**  
<http://www.PublicDebt.treas.gov/opd/opdpmt2.htm>



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### F Section 13.0 Calculation of Interest Penalties

Organization units will adhere to the following guidelines for calculating interest due on late payments.

The Prompt Payment Act interest rate in effect on the day after the due date will be the interest rate used in calculating the late payment interest.

Interest will be computed from the day after the due date (i.e., the thirty-first day) through the expected payment date.

Adjustments will be made for errors in estimating the date of the payment if requested by the **Payee** and if the penalty exceeds one dollar.

When an interest penalty that is owed is not paid, interest will accrue on the unpaid amount until paid (except in cases described in "g" below). Interest penalties remaining unpaid for any thirty-day period will be added to the principal. Thereafter, subsequent interest will accrue monthly on the total amount of principal and previously accrued interest.

When an organization unit takes a discount after the discount period has expired, the interest payment will be calculated on the amount of the improper discount taken, beginning the day after the end of the specified discount period through the expected payment date.

When an organization unit fails to notify the **Payee** within seven days that an Invoice is improper, the time allowed for payment of the, subsequently submitted, corrected Proper Invoice will be reduced. The difference between the seventh day after receipt of the Improper Invoice and the day notification was actually transmitted to the **Payee will be subtracted**. Calculation of interest penalties will be based on an adjusted due date reflecting the reduced number of days allowable for payment.

Interest penalties shall not continue to accrue after the filing of a claim for such penalties under the Contract Disputes Act of 1978, or for more than one year.

### F Section 14.0 Quality Control Program (QC)

Each organization unit must establish a QC program to assess performance of payment systems, and to provide a reliable way to estimate payment performance. Such QC programs must fulfill the following requirements:

#### .01 Accuracy and Consistency

The QC program must be a systematic performance measurement system that provides

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managers with information about problems and assists in targeting corrective action(s)  
throughout the organization unit.

QC data must be accurate (within established tolerances) and consistent. It will be used in developing annual as well as other reports and should be useful in budget development.

QC reviewers must use original documents and repeat the original calculations.

#### .02 Currency

Data should be gathered as frequently as needed by managers to identify and correct errors.

Information must be collected through a process at least as thorough as the original payment decision process.

#### .03 Efficiency

Where the number of payment actions is too numerous to permit a total review, data should be gathered on the basis of a statistically valid sample sufficient to assure the reliability of QC reviews.

#### .04 Objectivity

Data must be collected by individuals who are independent of the original payment decisions.

Supervisory reviews are not to be considered QC reviews.  
Analysis of QC data should result in remedial action targeted to correct objectively determined error causes.

#### .05 Utility

Analysis of QC data should result in remedial action to correct the causes of errors.

Each organization unit will establish an inquiry section(s) within each payment office for answering payee inquiries. If formally structured, such formal delegations of responsibility should be provided by the Chief Financial Officer of the payment office.

~~.01 Each organization unit will prepare and submit an annual prompt payment report (Exhibit F-2) to the Director for Financial Management. The Director will, in turn, provide OMB with a consolidated annual report for the Department of Commerce. The Department's annual prompt payment report is due to OMB by November 30. It should~~

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~~include information for the prior fiscal year. The parts of the annual prompt payment report will include:~~

- ~~a. Part I—Invoices paid subject to the Prompt Payment Act and OMB Circular A-125—number and dollar value of invoices;~~
- ~~b. Part II—Invoices paid late—number and dollar value of invoices, late payment interest penalties paid, additional penalties paid, reasons why penalties were incurred, and interest and other late payment penalties which were due but not paid;~~
- ~~c. Part III—Invoices paid one to fifteen (1-15) days after due date—number and dollar value, and relative frequency of invoices;~~
- ~~d. Part IV—Invoices paid eight (8) days or more before due date except where cash discounts are taken—number and dollar value, and relative frequency of invoices subject to, as well as not subject to, a determination under Section 4.1 of OMB Circular A-125;~~
- ~~e. Part V—Discounts—number of discounts available, number of discounts taken, number of discounts not taken because not economically justified, and reasons for failing to take discounts;~~
- ~~f. Part VI—Number of invoices paid—number of invoices paid subject to the Prompt Payment Act and OMB Circular A-125, and number and dollar value of interest penalties paid;~~
- ~~g. Part VII—Frequency distribution of late payment interest penalties—amount of penalty, number of payments, and dollars paid;~~
- ~~h. Part VIII—Description of the organization unit's payment practices—organization units are to describe the extent to which its payment practices satisfy the requirements of the Prompt Payment Act and OMB Circular A-125;~~
- ~~i. Part IX—Progress made—organization units are to describe specific achievements and problems during the fiscal year in implementing the provisions of the Prompt Payment Act and OMB Circular A-125. Include a description of any experience in determining the most appropriate timing for release of payment authorization so invoices are paid as close as possible to the due date without exceeding it;~~
- ~~j. Part X—Description of the organization unit's quality control system—units are to describe the extent to which the organization unit's quality control system conforms to the requirement of Section 3.e. of OMB Circular A-125. Where appropriate, describe plans to implement or upgrade a quality control system; and~~
- ~~k. Part XI—The report must be signed by the organization unit official who has authority over both procurement and payment functions.~~

Each organization unit will submit, to the Director for Financial Management, an abbreviated semi annual report to assist management in identifying Prompt Payment performance trends. (Exhibit F-1)

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Payment Offices should maintain records containing information such as the following.

Invoices Paid Subject to Prompt Payment: Dollar Value; and Number.

Invoices Paid Late: Dollar Value, Number, and Relative Frequency.

Late Payment Interest: Dollar Value; Number; and Relative Frequency.  
(Please refer to Exhibit F-1)

It would be helpful also to maintain records with regard to the following.  
Invoices paid eight days or more before the due date, except where cash discounts or rebates are taken -- number, dollar value, and relative frequency of invoices that are subject to, as well as those not subject to, ~~a determination under Section 4.1 of OMB Circular A-125~~ Prompt Pay Requirements.

The Number of Discounts available -- whether taken or >passed-up= due to inadequate economic justification (as well as the reasons for same).

Description of the organizational unit's payment practices.

Description of the organizational unit's Quality Control System.

### F Section 18.0 Exemptions

~~Any request for an exception to these policies and procedures must be made in writing by the organization unit finance officer to the Director for Financial Management, HCHB Room 6827. Organization units seeking an exception(s) must clearly state the nature of the problem that prevents the unit from complying with these policies and procedures, what procedural or system changes are necessary to ensure compliance with these requirements, and when the petitioning unit will be able to meet Departmental Prompt Payment requirements.~~

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Appendix F  
Exhibit F-1

Bureau: \_\_\_\_\_

Date: \_\_\_\_\_

**Fiscal Year 2000**

**Prompt Payment Report**

	1 <sup>st</sup> Half	2d Half	Full Fiscal Year
<b>I. Invoices Paid Subject to Prompt Payment Act</b>			
A Dollar Value A			
B. Number of Invoices			
<b>II. Invoices Paid Late</b>			
A. Dollar Value			
B. Number of Invoices			
C. Relative Frequency			
<b>III. Late Payment Interest Penalties Paid</b>			
A. Dollar Value			
B. Number of Invoices			
C. Relative Frequency			
<b>IV. Certification</b>			
I certify the accuracy of the data reported above			

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<p>_____ Signature and Title</p> <p>Telephone: (     ) _____ FAX: (     ) _____ E-mail: _____ Office Location: _____</p>
<p><b>Due Dates :</b> For 1<sup>st</sup> Half of Fiscal Year YY...Friday 26 May 2000</p> <p>For 2d Half of Fiscal Year YY..Wednesday 1 November 2000</p>